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TO RUEHC/SECSTATE WASHDC PRIORITY 0864

INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE PRIORITY

RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY

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UNCLAS SECTION 01 OF 03 ANKARA 001421

SENSITIVE

SIPDIS

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AMITRANO

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SUBJECT: TURKEY: SCENESETTER FOR DOE DEPUTY SECRETARY
PONEMAN

¶1. (SBU) Embassy Ankara warmly welcomes your visit to Turkey October 8-10. Our relations with Turkey are strong. While the euphoria from the President's visit last April have faded, the steady stream of senior visitors from Washington has helped us convince Turkey's leaders that the Administration's press to engage with them and seek their input on key issues is genuine. Your visit will be seen in that light.

POINTS TO RAISE:

-- Encourage the GoT to make the Southern Corridor its priority. Need to conclude a fair, transparent gas pricing and transit agreement with Azerbaijan. (paras 4-7)

-- Encourage efforts to increase the share of power Turkey gets from renewable sources. (paras 8-9)

-- Assure the GoT of U.S. interest in being a reliable partner for Turkey as it develops peaceful use of nuclear energy. (para 10)

-- Stress the importance the USG places on concluding the NSG guidelines and our willingness to address Turkish concerns about reliable access to nuclear fuel. Affirm our willingness to follow through on assurances of access to nuclear fuel in the event of market disruptions, if necessary to win support for the NSG guidelines. (para 11)

-- Express appreciation for the TAEK decision to replace the HEU fuel in its research reactor in Istanbul with LEU fuel. (para 12)

WATCH OUT FOR:

-- Backpedaling on Nabucco and GoT assurances that South Stream and Nabucco are not in conflict. (paras 4-5)

-- Requests for follow-up to offers made by State ISN DAS Eliot Kang regarding access to nuclear fuel. (para 11)

ENERGY AS SEEN THROUGH POLITICS

¶2. (SBU) Despite free give-aways ranging from coal to household appliances, the ruling AK Party's support declined in March 2009 local elections to 38 percent of the vote, down from 47 percent in the national parliamentary elections of July 2007. Stung by the election results, AKP is looking to strengthen its showing in the 2011 parliamentary elections.

In that context, AKP will be looking to show voters favorable results, including delivery of more energy at lower cost. Before the onset of the global economic crisis, Turkey's annual economic growth rate averaged 6 percent with an accompanying growth rate in energy usage of 8 percent annually. Most analysts expect economic growth will begin to revive in 2010 and the energy sector will resume its rapid growth. The country will need a stable and growing source of resources to keep that growth going. Turkey now imports about 80 percent of its energy resources. It is nearly 100 percent reliant on imported natural gas, over half of which is used to produce electricity. Sixty-five percent of its natural gas comes from Russia, another 17 percent from Iran. Turkey wants to reduce its reliance on imported energy in general (by domestic exploration, development of renewables and efficiency), and to reduce its reliance on any one supplier to no more than 30 percent.

¶3. (SBU) Aspects of Turkey's international policies also intertwine with its energy affairs. In particular, Turkey's movement to normalize relations with Armenia will continue to play into energy politics and Turkey's negotiations with Azerbaijan. Looking south, tensions with Cyprus, including on energy exploration issues, continue to hinder Turkey's EU aspirations and EU-Turkey energy relations. Cyprus continues to block opening of the EU Energy Chapter because of disputes with Turkey over offshore exploration for oil and gas deposits.

TURKEY'S REGIONAL ENERGY ROLE

¶4. (SBU) From the Baku-Tbilisi-Ceyhan oil pipeline (BTC) negotiations in the 1990s until today, Turkey and the U.S.

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have shared a strategic vision to bring new oil and gas resources to market through new routes. Opening an east-west corridor for gas would strengthen the ties of Central Asia and the Caucasus with the West and decrease the dependence of eastern and central European countries on a single gas source. Over the past two years, we have also seen Turkey articulate another vision that is sometimes at odds with our shared one: to secure increased gas supply for Turkey's domestic market as its highest priority. Turkey is pursuing all options to ensure its energy security and enhance its role in Eurasian energy markets. Turkey continues its negotiations with Russia, both on hydrocarbon and nuclear energy projects. During Russian President Putin's visit in August, Turkey signed an agreement for the feasibility study for South Stream, which is viewed by many as a competitor to Nabucco. While we recognize that Turkey has an important energy relationship with Russia, we hope Turkey will continue to make the Southern Corridor its priority.

¶5. (SBU) Your visit is an important opportunity to remind the GOT that win-win solutions are possible. A policy that positions Turkey at the heart of an East-West energy corridor will pull more resources to Turkey as well as Europe. With the transit of increased gas resources, Turkey can strengthen its own relationship with Azerbaijan, Turkmenistan, Iraq and the EU.

¶6. (SBU) One important step to opening the East-West gas corridor is concluding a Turkey-Azerbaijan gas pricing and transit agreement. In recent meetings, Turkey and Azerbaijan appear to have come closer than any time in the last two years to reaching agreement on outstanding issues and are negotiating on quantities and prices. They reportedly have narrowed their differences on price for both Shah Deniz Phase one and two gas. Transit fees remain the most difficult issue, with Turkey proposing \$38-45 on a sliding scale, and Azerbaijan insisting on \$32 (this would be for gas transported via pipelines other than Nabucco, which has its own internal transit regime). Turkey says it is now waiting for a response to a proposal it made in Nakchivan in August.

We are told they have not discussed volumes yet, but are working under an assumption that there would be 8 billion cubic meters (bcm), of which 4 bcm would go to Turkey, and Azerbaijan would be able to market the other 4 bcm.

¶7. (SBU) The U.S. is not a commercial partner in developing Caspian gas or transiting it to world markets. These are decisions that will be made by the consortia developing and marketing their gas. The U.S. does not favor one pipeline route or another. Our interest is strategic. It was our shared strategic view with the Turks that made the BTC oil pipeline a reality in the 1990s.

RENEWABLES

¶8. (U) In its effort to expand generation capacity and diversify away from natural gas for electricity generation, the Ministry of Energy has proposed new legislation that would raise feed-in tariffs for renewable power generation to a range of EUR 0.07/kWh - 0.25/kWh. The bill was pulled from the parliamentary agenda at the last minute in July due to concerns about the burden the tariffs would put on the budget and a possible WTO objection over a local-supplier incentive included in the bill. The Parliament is expected to take up the bill again after it returns on October 1. You are likely to hear from industry how necessary this legislation is to expand the use of renewables in Turkey.

¶9. (U) On April 4, former Energy Minister Guler and Acting TDA Director Leocadia Zak signed a memorandum of understanding on cooperation on energy efficiency, renewable energy technology and clean coal technology. Currently, there are four projects in various stages of development: USTDA is negotiating with Argonne National Lab to carry out training on energy planning and modeling software; September 27-October 7, USTDA will host a visit of Turkish officials to the US for meetings with government and private sector officials on energy efficiency; USTDA will provide a grant for a feasibility study on coal gasification; and USTDA will provide technical assistance on solar power.

NUCLEAR

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¶10. (SBU) Turkey signed a 123 Agreement with the U.S. in June 2008 and put out a tender for its first nuclear project in September 2008. It received only one bid, from a Russian-led consortium with a per kilowatt price of 21 cents, which the Turks say is too high. The GoT is considering canceling the tender and putting it out for rebid or trying to negotiate a lower price if they can find the legal means to do so. Last week, the Ministry of Energy announced it had extended the bid for yet further consideration and expects to make a decision by the end of November. Although many--including Energy Minister Yildiz and members of parliament--find fault with the current tender, canceling it will be difficult and likely bring repercussions from the Russians. If they rebid the tender, and for future nuclear projects, the GoT has indicated it will offer a substantially different tender, with a public-private structure.

NON-PROLIFERATION

¶11. (SBU) Turkey is a key U.S. ally, has generally been supportive of our non-proliferation policy, and has received US support in improving its ability to detect and deter the transit of WMD (including nuclear) material. A team lead by Deputy Assistant Secretary of State Eliot Kang visited Ankara on September 28 and pushed Turkey to agree to the draft NSG guidelines to prevent the transfer of enrichment and reprocessing (ENR) technology. In an effort to persuade the GoT to support the NSG guidelines, DAS Kang offered that we

could provide written assurances (exchange of notes) that the U.S. would provide Turkey assured access to nuclear fuel in the event of market disruptions, consistent with the 123 Agreement. The GoT is now undergoing a policy review regarding its position on this issue. It would be useful to reiterate to your interlocutors the importance the USG places on concluding these guidelines and our willingness to address Turkish concerns about reliable access to nuclear fuel.

¶112. (SBU) The Turkish Atomic Energy Agency (TAEK) agreed in September 2008 to replace the HEU fuel in its research reactor in Istanbul with LEU fuel and we are in the final stages of preparation for this transition. DOE is scheduled to complete the HEU removal by the end of the year. You should applaud the TAEK decision and urge that the process remain on schedule.

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